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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001376

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TAGS: [ECON](#) [EINV](#) [EAIR](#) [ETTC](#) [EFIN](#) [CH](#) [TW](#)

SUBJECT: CROSS-STRAIT LIBERALIZATION ON HOLD UNTIL MAY

REF: A. STATE 15626

[1](#)B. TAIPEI 709

[1](#)C. TAIPEI 1080

Classified By: AIT Director Douglas H. Paal, Reason 1.5 b/d

Summary

[1](#)1. (C) Mainland Affairs Council (MAC) Department of Economic Director Fu Don-cheng confirmed that cross-Strait economic liberalization and government-sponsored exchanges are on hold until at least May. He said that the recent goodwill measures offered by the PRC on passenger charter flights, agricultural imports, and the employment of PRC fishermen were not enough. Fu emphasized that Taiwan was disappointed the PRC has not responded to Taiwan's proposal on cargo charter flights. Taiwan's implementation of a currency exchange pilot program and investment liberalization in IC packaging and testing and small-size TFT-LCD panel manufacturing are likely to be announced in May. Other possible Taiwan liberalization measures have additional problems that require further study. This is consistent with expectations among many outside observers, but MAC officials fear that private sector agricultural interests may move ahead of the government in responding to Beijing's agricultural import proposal. The delay in unilateral liberalization until May indicates that Taiwan won't be using such measures to restore goodwill and reinforces the fact that Taiwan expects the PRC to make the next move. End summary.

[1](#)2. (C) In a March 22 meeting with econoff, Mainland Affairs Council (MAC) Economics Department Director Fu Don-cheng clarified the Taiwan government's plans on cross-Strait economic and exchange policies in light of the PRC's passage of the Anti-Secession Law. Fu confirmed that economic liberalization continues to be a long-term policy, but further relaxation at this point would create "the wrong impression." Unilateral economic liberalization measures are on hold. In addition, Taiwan officials' participation in any sort of cross-Strait exchange, including participation in conferences held in the Mainland has been cancelled temporarily. Public funding for exchanges by private institutions has also been frozen.

Petty Favors

[1](#)3. (C) Fu commented that the three goodwill measures recently proposed by the PRC were not enough to bring Taiwan closer to a dialogue or allow further progress on unilateral relaxation measures. He disparaged these offers as "petty favors" (xiao en xiao hui). Fu noted that Taiwan airlines are not interested in the PRC's proposal for additional holiday passenger charter flights, primarily because of the greater potential in regularly-scheduled flights elsewhere. On the PRC's offer to legalize agricultural imports from Taiwan, Fu pointed out problems that the PRC must correct before such a measure will have any impact, namely high tariffs on agricultural goods, complicated sanitary inspection and quarantine procedures, and closed distribution channels in the PRC. Furthermore, Fu said the PRC's expression of interest in legalizing the employment of PRC fisherman on Taiwan fishing boats was all talk and no action. He explained that the PRC had unilaterally forbidden employment on Taiwan fishing boats in 2002, and if it was serious about reversing the policy, it must act first.

[1](#)4. (C) Fu emphasized the PRC's lack of response to Taiwan's proposal for cross-Strait cargo charter flights. He mentioned some of the reasons why the PRC is less interested in cargo flights -- PRC airlines don't have the capacity to compete with Taiwan carriers and don't need access to Taiwan to take advantage of the rapid growth in China's air cargo traffic. He also acknowledged that PRC President Hu Jintao had indicated in his speech at the start of the National People's Congress (NPC) that industry groups could discuss such charters. Fu called this a sign that there was hope, but insisted that the PRC had not yet provided Taiwan with a real response to the proposal.

Look for Progress in May

15. (C) Fu indicated that several liberalization measures, which had been very near approval before the controversy surrounding the Anti-Secession Law (described ref C), would likely receive final approval and be announced in May 2005. He said that Taiwan would legalize investment in the Mainland in integrated circuit (IC) packaging and testing and small-size TFT-LCD panel manufacturing. In addition, it will move forward with the Renminbi-New Taiwan Dollar exchange pilot program in Kinmen and Matsu.

Other Problems -----

16. (C) Other measures on the drawing board still have problems that will require further examination. These include Taiwan investment in the PRC in naptha crackers, and permission for PRC banks to set up representative offices in Taiwan. Fu said that Taiwan agencies would resume discussing timing for these measures in May.

17. (C) On the proposal for a dollar-denominated offshore capital (stock) market recently floated by Taiwan's Financial Supervisory Commission (FSC), Fu explained that concerns about adequate liquidity means that more extensive study of the proposal is required. The concerns revolve around the question of whether local investors would be allowed to participate in the market. Fu said that if local investors are allowed to buy stocks on the offshore market, it could draw too much capital away from the local board. (Note: BNP Paribas Managing Director Peter Kurz recently told econoff that if local retail investors are excluded there won't be adequate liquidity in the offshore market and the proposal would be &desperate and doomed to failure.8 End note.)

18. (C) Fu said the plan to relax the technology restrictions for semiconductor manufacturing investment also needs more study. Taiwan has been considering lowering the minimum feature size allowed from 0.25 microns to 0.18 microns. Such a change would make Taiwan's regulations more consistent with U.S. export regulations and the Wassenaar Agreement. However, Fu reported that the nonpaper AIT/T had recently provided the Taiwan government on U.S. regulations (ref A) appeared to differ from more restrictive guidance that Taiwan's National Security Council had received some years ago from U.S. government officials. (Comment: Fu said that MAC was preparing some questions to submit to AIT in order to clarify this possible discrepancy. Fu cited no connection to the controversy surrounding Taiwan semiconductor manufacturing firm United Microelectronics Corporation's (UMC) relationship with Mainland firm He Jian (ref B), but this is probably also having an impact on liberalization in semiconductor manufacturing. End comment.)

Private Sector Expectations -----

19. (C) Taiwan government plans appear consistent with the expectations of many outside observers. Chairman of Powerchip Semiconductor Corp., predicted to AIT/T that the setback in cross-Straits relations caused by the Anti-Secession Law would be only temporary. He foresaw a delay in cross-Straits liberalization measures of about three months altogether. Huang went further to say that in the final analysis the law would help reduce cross-Straits tension by clarifying the PRC's reaction to possible steps Taiwan might take toward independence.

10. (C) MAC officials express concern also that their attempts to put the onus on Beijing may be undercut by opposition and private sector initiatives, especially in the agriculture section. MAC Chief Secretary Jan Jyh-horng told AIT that MAC has tried gently to dissuade Taiwan Agricultural Cooperative leaders from engaging in talks with the Mainland on possible duty-free imports of Taiwan agricultural products. Jan said that MAC is concerned that the PRC plans to open its agriculture market in order to increase Taiwan's dependency on Mainland trade. He said that MAC has cautioned Agricultural Cooperative leaders that incentives Beijing offers today may be arbitrarily withdrawn in the future if cross-Straits relations sour.

11. (C) People First Party (PFP) Policy Chief Vincent Chang told AIT that the PFP plans to lead a delegation of Agricultural Cooperative leaders to the PRC in April to negotiate 1) duty-free access for Taiwan agricultural exports; 2) a ban on imports of PRC agricultural products into Taiwan; and 3) establishment of an agricultural technology exchange mechanism. Chang said that the PFP might press the Chen administration to endorse the delegation's visit as a condition for holding a second meeting between President Chen Shui-bian and PFP Chairman James Soong. While the PFP has downgraded the level of the proposed agricultural delegation in light of the enactment of the Anti-Secession Law, Chang asserted that it would proceed with or without a

formal official blessing.

Comment) Still in the PRC's Court

12. (C) Fu clearly emphasized the Taiwan government believes that the PRC had not adequately responded to the Taiwan cargo charter proposal and that its offers so far were all but meaningless. With the rhetoric about the Anti-Secession Law in Taiwan already beginning to cool, putting off further progress on unilateral liberalization measures until at least May would reaffirm that Taiwan wants the PRC to make the next move. Unilateral measures will eventually be implemented, but the Taiwan government won't be using them as a goodwill gesture to restore the positive pre-Anti-Secession Law atmosphere and jump start progress toward a dialogue. Through all of Fu's presentation runs the familiar MAC theme that it will decide what is best for Taiwan business and that it will keep business subordinate to cross-Strait political concerns. End comment.
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